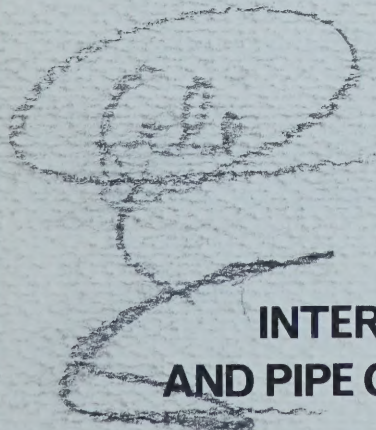
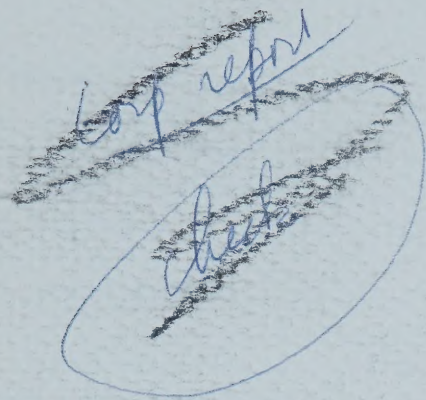




**INTERPROVINCIAL STEEL
AND PIPE CORPORATION LTD.**

**1967
ANNUAL REPORT**

**INTERPROVINCIAL
STEEL
AND
PIPE
CORPORATION
LTD.**

DIRECTORS

D. R. Annett, Toronto.....	President, Annett & Company Limited
W. M. Elliott, Q.C., Regina.....	Partner, MacPherson, Leslie & Tyerman
Hon. Gordon B. Grant, Regina.....	Minister of Public Health, Province of Saskatchewan
G. T. Haig, Regina.....	Interprovincial Steel & Pipe Corporation Ltd.
Hon. D. V. Heald, Q.C., Regina.....	Attorney General, Province of Saskatchewan
J. V. King, Regina.....	President, Continental Construction Ltd.
R. B. Love, Calgary.....	Partner, Macleod, Dixon, Burns, Love, Leitch & Lomas
C. S. McLeod, Regina.....	Executive Vice-President, Western Tractor Ltd.
A. Hoadley Mitchell, Edmonton.....	President, Mitchell & Associates Ltd.
G. P. Osler, Toronto.....	President, Unas Investments Limited
F. E. Shaw, Sarnia.....	Interprovincial Steel & Pipe Corporation Ltd.
G. C. Solomon, Regina.....	President, Western Tractor Ltd.
J. N. Turvey, Regina.....	Interprovincial Steel & Pipe Corporation Ltd.

EXECUTIVE OFFICERS

F. E. Shaw.....	<i>Chairman of the Board</i>
— J. N. Turvey.....	<i>President</i>
G. T. Haig.....	<i>Vice-President - Production</i>
J. D. MacLennan.....	<i>Vice-President - Finance</i>
L. G. Welch.....	<i>Vice-President - Sales</i>
B. E. Yeo.....	<i>Secretary</i>
W. H. Boulding.....	<i>Treasurer</i>

REGISTRAR AND TRANSFER AGENTS

Common Shares.....	}Montreal Trust Company
Preference Shares.....	
First Mortgage Sinking Fund Bonds.....	
First Mortgage Sinking Fund Bonds (Series B).....	
First Mortgage Sinking Fund Bonds (Series C).....	
Convertible Debentures.....	Canada Trust Company

OFFICES

Head Office and Plant Location: P.O. Box 1670, Regina, Canada

Sales Offices:

Regina — Head Office	Calgary — 301 Petro Chemical Building	Edmonton — 702 Centennial Building
Vancouver — 1334 West Pender	Winnipeg — 191 Lombard Ave.	Toronto — Suite 828, 67 Yonge St.

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

11TH

ANNUAL REPORT

FOR THE YEAR ENDED AUGUST 31, 1967

HIGHLIGHTS OF THE YEAR

	1967	1966	1965	1964	1963	1962
Sales	\$14,657,504	\$17,329,000	\$17,969,000	\$13,304,000	\$12,948,000	\$10,993,000
Net Profit before Depreciation	\$ 2,372,122	\$ 4,179,150	\$ 3,554,546	\$ 2,434,104	\$ 2,796,367	\$ 505,949
Provision for Depreciation	\$ 770,215	\$ 753,180	\$ 751,478	\$ 633,072	\$ 586,395	—
Net Profit	\$ 1,601,907	\$ 3,425,970	\$ 2,803,068	\$ 1,801,032	\$ 2,209,972	\$ 505,949
Net Profit as Per Cent of Sales	10.9%	19.8%	15.6%	13.5%	17.1%	4.6%
Number of Common Shares	2,846,651	2,832,731	2,740,224	2,702,481	2,554,580	2,552,000
Net Profit Per Common Share	\$ 0.51	\$ 1.17	\$ 1.02	\$.67	\$.87	\$.20
Working Capital	\$ 8,072,670	\$ 7,236,269	\$ 4,892,305	\$ 1,045,387	\$ 718,492	(\$ 717,910)
Long-Term Debt	\$ 9,916,762	\$10,495,062	\$12,030,563	\$11,150,000	\$10,105,000	\$11,005,000
Shareholders' Equity	\$22,384,507	\$20,891,548	\$15,030,851	\$12,152,684	\$10,919,108	\$ 8,705,137
Equity Per Preference Share ..	\$ 21.30	\$ 21.30	—	—	—	—
Equity Per Common Share	\$ 6.93	\$ 6.44	\$ 5.49	\$ 4.50	\$ 4.27	\$ 3.41

DIRECTORS REPORT

TO THE SHAREHOLDERS

The Board of Directors submits herewith the Annual Report of your Company for the year ended August 31, 1967, together with the financial statements and your auditors' report.

The year under review has been a period of testing of the economic strength of your Company. For the second time in three years, IPSCO has withstood a serious price war on pipe prices in Western Canada. The price war, combined with problems resulting from the installation and "break-in" of improved and expanded production facilities, has resulted in a decrease in earnings for the year as compared with 1966.

The most serious problem, as forecast in the last Annual Report, is the slashing of pipe prices by an Eastern producer. These price reductions are confined to the IPSCO product range and only apply in the market area where the Company can most effectively compete, that is, in Western Canada. The largest company in any industry is recognized as the price leader and all other companies within the industry, to remain competitive, must follow the pricing policies established by the price leader. However, it is not normal for the price leader to enforce a policy of low prices in Western Canada and at the same time maintain normal list prices in Eastern Canada. As a direct result of the pipe price war, net mill revenues and earnings on pipe sales last

year were reduced by \$1,310,000. The deterioration in pipe prices over the past eighteen months, during a period of strong demand for pipe, has had a serious effect on the Canadian pipe industry. Although this resulted in a sharp reduction in IPSCO's profits last year, the Company is fortunate in having integrated production facilities so that it can withstand price discrimination practices much better than companies which rely on outside sources for steel. This matter is currently under study in Ottawa and it is hoped that remedial action will be taken in the near future.

Overall sales last year, after allowing for the pipe price war and production delays resulting from the installation and "break-in" of new production facilities, were satisfactory. Modest, but important cost reductions were recorded in all product lines. The problems encountered in breaking in new equipment took longer to resolve than was forecast, particularly in the pipe mill. However, target levels of pipe production are now being achieved on a sustained basis.

Canada's largest range of specification pipe will be offered by IPSCO early next year on completion of the \$2,000,000 spiral weld large diameter pipe mill. The entrance of IPSCO into the large diameter pipe market using the spiral weld method of production, results in substantially lower capital and raw material costs, with equal quality of product as compared with present longitudinal large diameter mills.

The Company's financial position continued to improve last year, with an increase in working capital and a decrease in long-term debt. Although earnings were reduced sharply from those recorded in 1966, the Company is in an excellent position to take advantage of increased finished product capacity in a broader range of products during the current year.

The Company's forward order position is comparable to previous years and indications point to a record year in 1968 in pipeline construction and pipe sales. While it is not possible to forecast at what time the industry can expect a return to stable pipe prices, the present situation cannot be maintained indefinitely. Broadening of the IPSCO product range over the last several years has given added stability to the operations of the Company during the last eighteen month period of depressed pipe prices. Increased production and sales in a broader product range should improve operating results for the current year.

SALES

Reduced selling prices for pipe, combined with production delays in the pipe mill, resulted in a 16% reduction in dollar sales volume for the year ended August 31, 1967. This can be seen from the following summary —

Year Ended August 31	Total Sales Volume	Percentage Change Over Previous Year
1961	\$ 7,158,000	—
1962	10,993,000	+ 54
1963	12,948,000	+ 18
1964	13,304,000	+ 3
1965	17,969,000	+ 35
1966	17,329,000	— 4
1967	14,657,000	— 16

The decrease in dollar sales volume was confined principally to one product, API line pipe, and was a function of reduced selling prices plus a reduction in tonnage sales of this product. In addition, "break-in" of new production facilities in the pipe mill created problems which prevented the Company from obtaining any increased production from the new equipment by the fiscal year end. Instead of achieving an increase in pipe production and shipments, API line pipe tonnage shipped decreased by 15% over that shipped in 1966. Overall pipe volume in Western Canada was greater last year than in 1966, however, our participation in this market was reduced because of delayed production schedules in the pipe mill.

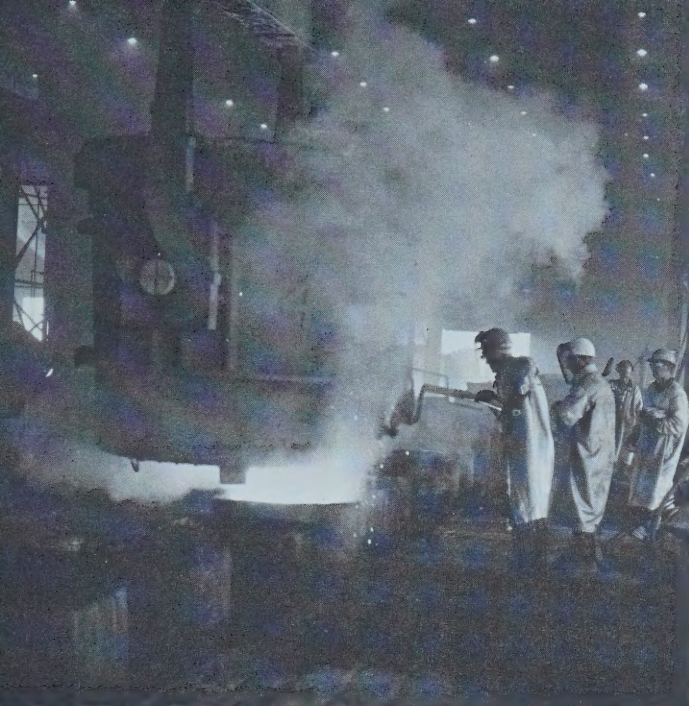
Sheet and light plate sales increased by 36% over 1966. With depressed pipe prices this gave added stability to the overall operations of IPSCO. Skelp sales remained at about the same level as 1966, with shipments to Alberta and the United States. In summary, flat rolled steel product sales remained at approximately the same level as 1966. However, a better product mix, with increased sheet and light plate sales, together with reduced cost on the new cut-to-length line, improved the gross profit on steel sales by 48% over the 1966 figure.

The market for IPSCO casing is now well established and should continue to grow in future years. The range of casing offered has been increased and this should result in greater participation in this market. The expanded threading facilities, completed last spring, will also permit greater penetration of the market for water well casing in Western Canada.

Structural sales increased by 40% over 1966 and there is excellent potential for further growth in this market. Water line pipe sales doubled over the volume sold in 1966. After considerable sales effort, steel pipe, suitably coated and lined, is now accepted as an equal with cast iron and asbestos cement pipe for water transmission projects. Economies in laying steel pipe, plus potentially higher carrying capacities through the addition of pumping equipment are plus factors favoring steel pipe. This represents a growing market for

Drilling activity continues to make the Rainbow-Zama Lake country in Northwestern Alberta the hottest oil exploration area in Canada.





The teeming of molten steel into ingot molds is a dramatic step in the steel making process. Last year IPSCO produced 125,000 tons of steel in ingot form.

future years, not only for the present size range but also for large diameter spiral weld pipe which will be produced by IPSCO early in 1968.

Forecast pipe requirements in 1968 indicate there will be a substantial increase in pipe tonnage sales over 1967. Looping programs by large diameter oil and gas transmission companies will require approximately 1,000 miles of big inch pipe. Gathering line construction is expected to reach 1,100 miles, representing a 10% increase in this type of pipeline construction. Lateral lines and tie-ins to the main transmission projects will add substantially to overall pipe requirements in 1968.

Steel tonnage should increase moderately more than pipeline mileage due to increased construction activity in large diameter lines. With overall forecast mileage increased by 11% over last year, steel tonnage can be expected to gain by more than 15% to between 575,000 and 600,000 tons in 1968. It appears certain that 1968 will be a record year for contractors and pipe mills servicing the market.

Flat roll product sales should increase moderately in 1968, and small increases are also forecast for structurals, casing and water line pipe. The return to full drilling activity in the north, following freeze-up, should result in a level of sales through the winter months equal to the demand experienced last year. As noted, summer pipeline construction will be extremely active

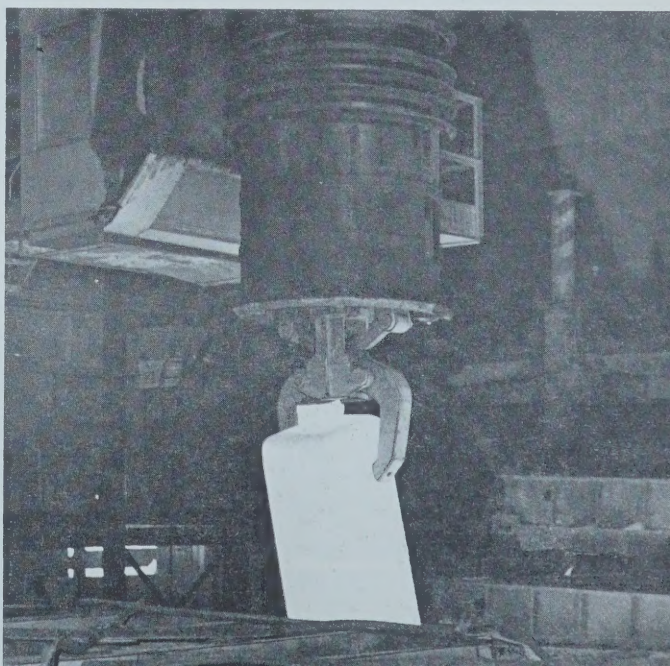
in 1968. The current fiscal year will be a challenging one for the sales department, with expanded capacities in the mills and the entrance of IPSCO into the large diameter pipe market.

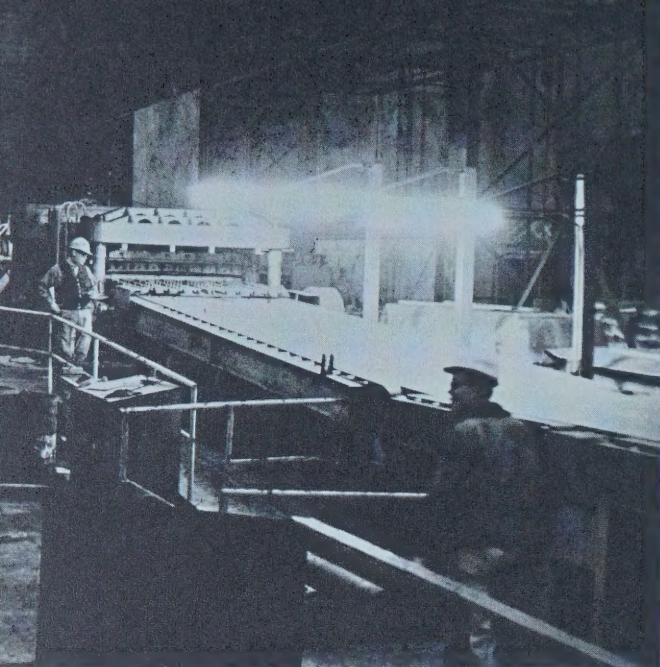
The small diameter mill, with a capacity of 20,000 tons per annum, will provide more than adequate stocks of 2" pipe to meet market requirements. The main pipe mill is capable of producing 90,000 tons of pipe per annum. The cut-to-length line, with a capacity of 100,000 tons per annum of sheet and light plate, provides ample capacity to service this market. In addition, the new spiral weld large diameter pipe facilities, on completion in March of 1968, will add a further 48,000 tons of finished product capacity per annum. Obviously, at the current ingot capacity level of 145,000 tons the selection of product mix will have to be carefully considered. However, market prospects within the IPSCO product range for 1968 are most encouraging and should assure a high level of production and sales in the current year.

PRODUCTION

Production volumes were down slightly during the year under review as compared to 1966. This was due primarily to planned shut-downs in both the steel and pipe mills to allow for installation of new production equipment. Despite lower production volumes, modest but important cost reductions were obtained last year.

After re-heating, ingots are removed from the soaking pits for delivery to the rolling mills. Ingot temperature at this point in the manufacturing process is 2,300° F.





The new sheet and light plate finishing line at IPSCO has an annual capacity of 100,000 tons. As a result of this new equipment, range of product has been expanded.

Ingot production, at 125,000 tons, was down by 8,000 tons from the 1966 total of 133,000 tons. A combination of lower average scrap cost plus increased ingot yield resulted in a 4% reduction in the cost of producing ingot last year as compared to 1966. This cost improvement was obtained despite increased labour costs, and reflects increased production efficiencies.

The rolling mills produced 75,000 tons of skelp and coiled sheet last year as compared to 85,000 tons in 1966. The lower volume is attributable to production delays in the steel and pipe finishing departments due to installation and "break-in" of new equipment. Despite lower volume on the rolling mills, the cost of skelp and coiled sheet was reduced by 3% over that experienced in 1966. Lower ingot cost plus higher yields on the rolling mills accounted for the improvement in costs.

The most important cost reduction last year was obtained on the new sheet and light plate finishing

line. The cost of producing sheet and light plate last year was decreased by 7% over the costs obtained in 1966. Production volume increased 42% over 1966, even though the new equipment was installed in December and on limited production through January and February during "break-in" of this equipment. The new line is capable of producing 100,000 tons of sheet and light plate per annum in an expanded range of widths and thicknesses. Further cost reductions are available at higher levels of production as markets for sheet and light plate are developed.

During the year under review, the tonnage volume of pipe produced decreased by 12% over that produced in 1966. The decrease is attributable to planned shut-downs for installation of new production equipment and reduced levels of production during "break-in" of new facilities. In addition, the product mix, with a higher percentage of smaller diameter pipe produced as compared with 1966 also resulted in a decrease in tonnage volume of production. The cost of producing pipe decreased slightly last year as compared with 1966, due primarily to lower skelp cost.

As reported in the interim report to shareholders on September 15, 1967, the "break-in" period on the new pipe mill facilities has been longer than anticipated, with the result that the volume of pipe production was down substantially from forecast levels of output. However, over the last month, the pipe mill production has reached and maintained target levels of designed capacity and it now appears these problems have been resolved.

In keeping with the trend towards higher grades of API pipe used in pipelines, IPSCO now produces API X-60 grade in several sizes. The control available through producing both the steel and the pipe permits close quality control throughout the manufacturing process. This will also apply on large diameter pipe, and API X-60 grade in 36" x .344" wall thickness was produced from IPSCO steel last year using a spiral mill in Germany, identical to the mill which will be installed at Regina early in 1968.

Large diameter pipe shown below was produced from IPSCO steel on a spiral weld pipe mill in Germany. This pipe met API X-60 specifications for 36" diameter by .344" wall thickness.





Construction of the Spiral weld pipe mill building is shown in progress. IPSCO structurals were used extensively in this building, which measures 360' in length, 110' in width and 32' in height.

LARGE DIAMETER PIPE MILL

In April of this year the announcement was made that IPSCO would build a spiral weld pipe mill to produce large diameter API line pipe. This expansion, at a cost of \$2,000,000, is proceeding on schedule with completion of the mill slated for March, 1968 and production to commence during April. This project has been developed over the past two years and the decision to proceed was based on the fact that in November of 1966 final approval of the API specification on spiral weld pipe was obtained. The spiral weld pipe process for high pressure large diameter pipe was developed in Germany and in excess of 1,000,000 tons of this pipe is presently in service in Europe and the Middle East. It has not been used in North America to date because a specification, prior to last year, was not published by the American Petroleum Institute (API). However, most of the major oil companies have used this product in other countries and are familiar with the quality and performance of spiral weld pipe.

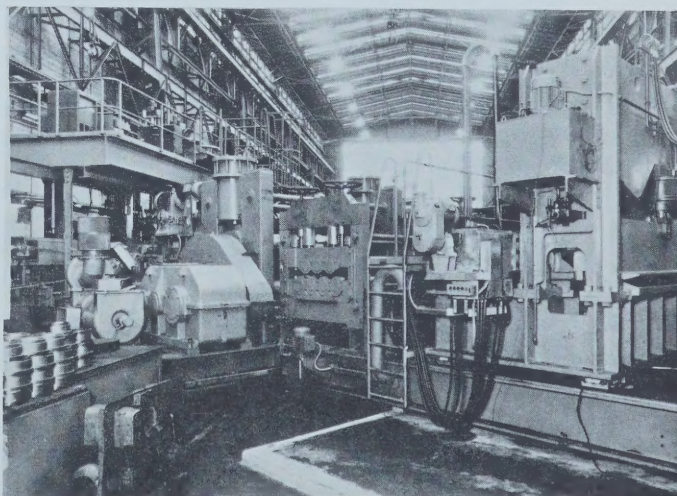
Potential customers in Canada have been contacted and they are interested in the product for use in high pressure oil and gas transmission lines. The pipe mill building, measuring 360' x 110' (39,600 sq. ft.) is presently under construction, using IPSCO materials, and will be completed by January, 1968. The pipe mill, which is being supplied by Thyssen Stahlunion-Export GmbH will be completed in December and ship-

ped to Regina in January. The mill will be completely assembled and operated at the guaranteed production speeds at Hamburg prior to shipment to Regina. In addition to the main mill, all finishing equipment has either been ordered or is being fabricated at IPSCO on schedule for a March completion of the overall facilities.

The production of large diameter pipe, using the spiral weld process, is a particularly suitable addition to the Regina steel and pipe facilities. The mill will be capable of producing large diameter pipe in all diameters within the range from 16" to 64". The spiral weld process permits quick change-over from one size to another so small tonnages can be produced economically to specific orders. The spiral weld mill processes coiled skelp, presently produced by IPSCO, as compared to the longitudinal weld mills that require wide plate as the raw material. The cost of producing coiled skelp is substantially lower than the cost of producing wide plate to meet API specifications in the finished pipe. The annual capacity of the spiral weld mill will be 48,000 tons per annum. The lay-out of the pipe mill has been designed so as to permit the installation of two more production machines, as markets warrant, which will increase capacity to 144,000 tons per annum in future years.

IPSCO skelp was shipped to Germany earlier this year and API X-60 grade pipe was produced from this material on an identical spiral weld pipe mill. The pipe produced, 36" diameter by .344" wall thickness, met

IPSCO's new spiral weld large diameter pipe mill is shown under construction at the plant of Thyssen Stahlunion-Export GMBH, Hamburg, Germany.



all requirements in the API X-60 specifications and these tests were most encouraging.

As in the case of any new product, considerable sales effort will be required to introduce API spiral weld large diameter pipe into the Canadian market. However, the sales department is optimistic that this product can be effectively marketed to oil and gas transmission companies in Canada. Additional markets are available for casing pipe, water line transmission pipe, dredging pipe and many other applications.

RAW MATERIALS

IPSCO's principal raw material is steel scrap which is purchased from a number of sources. No difficulty was encountered in obtaining adequate supplies of steel scrap to meet requirements last year and the generation of this material within economic shipping distance of the Regina mill is sufficient to maintain a capacity level of 145,000 ingot tons per annum. Steel scrap prices were generally lower last year as compared with previous years and this assisted in reducing production costs in the Regina mills. Plans are well advanced for modifications to the existing electric steel furnaces by increasing the transformer capacity supplying power to these furnaces. On completion of these modifications, later in 1968, ingot capacity of the existing furnaces will be increased from the present level of 145,000 tons to 200,000 tons. This increased capacity will be obtained through increased scrap purchases until such time as a supply of primary iron has been negotiated.

As reported in the last Annual Report, the long-term growth in steel capacity will depend on the development of a supply of primary iron to supplement scrap supplies. During the year under review, negotiations continued with several alternative suppliers of primary iron, based on an initial requirement of 150,000 tons per annum. Several developments within the primary iron industry and specifically within those firms wishing to supply IPSCO necessitated the deferment of a final decision on this matter. This is a complex negotiation, involving different grades of iron pellets offered, the extent of reserves, price and freight cost to Regina. However, a supply of primary iron is available from several sources and a final decision will be made as soon as complete information is available from the several sources involved.

The increase in ingot capacity from 145,000 tons to 200,000 tons per annum is the first stage in the Company's program with regard to raw material supply.

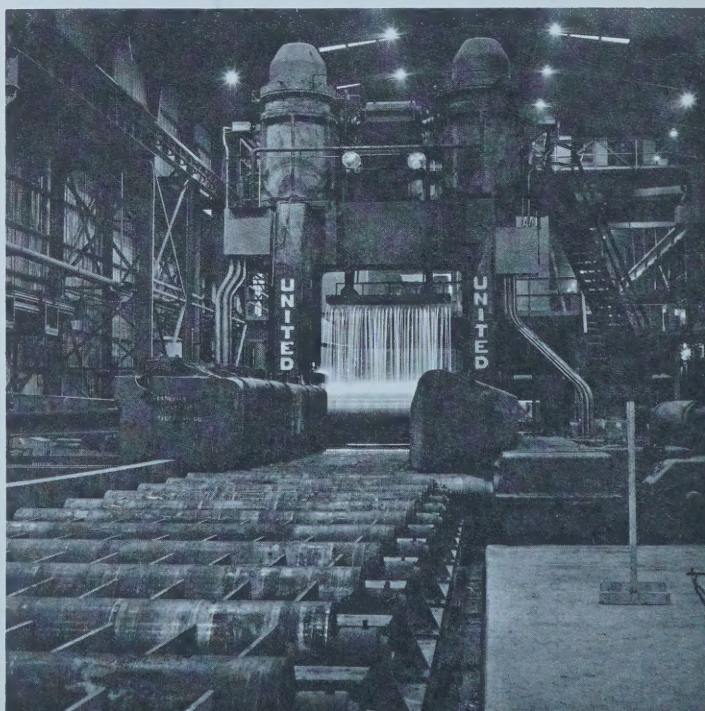
On completion of the negotiation of a long-term supply of primary iron, a third electric furnace, presently on site at the Regina mills, will be installed. This will provide an additional steel capacity of 150,000 ingot tons per annum, bringing the total ingot capacity at that time to 350,000 ingot tons per annum.

A long-term supply of primary iron is essential to the continued growth of the Regina mills. In addition, ingot cost, using fully reduced iron pellets to supplement steel scrap supplies, will be reduced and with expanded production, sales and earnings, this additional investment will be recovered very quickly. The decision with regard to the timing of construction of facilities to use primary iron at the Regina steel mill will be affected by the position of the money market and the cost involved in raising funds.

FINANCIAL

Operations for the year resulted in a profit before depreciation of \$2,372,122. After providing for depreciation in the amount of \$770,215, the net profit for the year amounted to \$1,601,907. The profit before depreciation is equivalent to \$0.78 per common share and the net profit after depreciation is equivalent to \$0.51 per common share. Allowance is made in the above calculations for dividends on the preference shares.

IPSCO's 2-Hi slabbing mill is one of the largest in Canada, capable of processing 20-ton ingots.



As mentioned previously, the price war on pipe in Western Canada reduced significantly revenues and profits on sales of API line pipe and other grades of pipe in this market. The reduction in revenues, as compared to price levels obtained during 1966, amounted to \$1,310,000. This represents a direct reduction in net profits and is equivalent to a reduction of \$0.46 per common share last year. The gravity of the price war on the operations of the Company can be seen from the above comparison.

The net profit after depreciation amounted to 10.9% of sales. This is the lowest ratio of net profit to sales recorded by the Company since 1962 and is attributable to the pipe price war. The shareholders' equity continues to show improvement, amounting to \$22,384,507 at August 31, 1967, as compared to \$20,891,548 at August 31, 1966. Equity per common share at year end amounted to \$6.93 for each common share, with 2,846,651 common shares issued and \$21.30 for each preference share, with 125,000 preference shares issued. It was not necessary for the Company to pay income tax for the year and by using the depreciation provisions of the Income Tax Act to best advantage, it is unlikely that the Company will incur any substantial income tax liability during the current year.

The net working capital position of the Company continued to improve during the year increasing from \$7,236,269 at August 31, 1966 to a new high of \$8,072,670 at August 31, 1967. The improvement in working capital during the year, in the amount of \$836,401, resulted almost entirely from operations.

The improvement in the financial condition of the Company can be seen from the following summary of net working capital and long-term debt over the last six years:

<u>Year Ending August 31</u>	<u>Working Capital</u>	<u>Long-term Debt</u>
1962	\$ (717,910)	\$11,005,000
1963	718,492	10,105,000
1964	1,045,387	11,150,000
1965	4,892,305	12,030,563
1966	7,236,269	10,495,062
1967	8,072,670	9,916,762

The Company's net working capital has improved from a deficit position of \$717,910 in 1962 to a surplus position of \$8,072,670 as at August 31, 1967; providing an overall improvement of \$8,790,580 during the last five years of operations. The improvement in net working capital over the last five years was achieved

after providing for additions to fixed assets and reduction of long-term and deferred debts totalling \$10,298,283. Included in the additions to fixed assets was the development program completed last spring at a cost of \$2,317,068 which was financed through the sale of preference shares.

Long-term debt was reduced during the year by \$578,300, from \$10,495,062 to \$9,916,762. The ratio of depreciated fixed assets to long-term debt at August 31, 1967 was 2.4 to 1, providing approximately \$2,400 security for each \$1,000 in long-term debt.

The statement of source and application of funds, which is included with the audited financial statements, shows how the funds flowed in the Company for the year ended August 31, 1967. The statement shows that sources of funds, totalling \$2,587,174, enabled the Company to meet its obligations as they became due, provide funds for fixed asset additions and to increase its working capital position by \$836,401. During the year the Company negotiated a two-year \$2,000,000 line of credit with the Company's bankers to finance the cost of construction of the spiral weld pipe mill. At August 31, 1967, \$174,000 had been drawn against this loan. The current position of the bond market, together with the costs involved in raising this amount of money in long-term bond indebtedness, made the two-year \$2,000,000 line of bank credit a much more favorable alternative. This is particularly true when consideration is given to the earnings potential for the spiral weld large diameter pipe mill. Assuming these facilities operate at 50% of rated capacity over the next two years, the entire bank loan could be repaid out of increased earnings from these new facilities.

A careful review was made last year by the Board of Directors into the policy with respect to dividends on common shares. As forecast in the last Annual Report, tight money conditions in Canada have continued to the present time and show no signs of easing in the immediate future. This situation, together with the very serious reduction in earnings as a result of the pipe price war in Western Canada, deferred a decision on dividends on common shares for the present time. However, this matter will be reviewed periodically by the Board of Directors and at the appropriate time a dividend on common shares will be declared.

Respectfully submitted on behalf of the Board of Directors.

Regina, Canada,
January 5, 1968.

J. N. TURVEY,
President.

INTERPROVINCIAL STEEL

(INCORPORATED UNDER THE

BALANCE SHEET

ASSETS

CURRENT ASSETS

	1967	1966
Cash	\$ 82,813	\$ 66,590
Accounts receivable	3,835,361	3,165,215
Inventories valued at the lower of cost or net realizable value		
Raw materials	2,177,382	2,898,378
Work in process	2,662,002	1,756,252
Finished products	2,572,923	2,642,684
Supplies	1,335,743	1,552,986
Prepaid expenses	222,762	216,632
	<u>12,888,986</u>	<u>12,298,737</u>
Special refundable tax receivable	112,762	49,497

FIXED ASSETS — at cost

Pipe plant		
Buildings	516,982	305,798
Machinery and equipment	4,298,571	2,500,066
Steel plant		
Buildings	2,808,905	2,699,721
Machinery and equipment	19,688,841	19,007,463
	<u>27,313,299</u>	<u>24,513,048</u>
Accumulated depreciation	3,642,761	2,948,558
	<u>23,670,538</u>	<u>21,564,490</u>
Construction in progress — Note 1	177,945	2,269,000
Land (including iron ore property)	267,354	267,354
	<u>24,115,837</u>	<u>24,100,844</u>
	<u>\$37,117,585</u>	<u>\$36,449,078</u>

The accompanying notes are an integral part of this financial statement.

AND PIPE CORPORATION LTD.

COMPANIES' ACT OF SASKATCHEWAN)

AUGUST 31, 1967

LIABILITIES

CURRENT LIABILITIES

	1967	1966
Bank indebtedness — Note 2	\$ 2,425,000	\$ 1,150,000
Accounts, payable and accrued	1,367,345	1,299,680
Construction contracts payable		1,641,151
Sales taxes payable	209,171	159,137
Current maturities on long-term debt	752,300	750,000
Dividend payable on preference shares	62,500	62,500

	<u>4,816,316</u>	<u>5,062,468</u>
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LONG-TERM DEBT — Note 3

	<u>9,916,762</u>	<u>10,495,062</u>
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SHAREHOLDERS' EQUITY

CAPITAL STOCK — Note 4

Authorized

125,000 \$1.20 cumulative redeemable convertible preference shares no par value

5,000,000 common shares no par value

Issued

125,000 preference shares	2,662,500	2,662,500
2,846,651 common shares (1966 - 2,832,731 common shares)	8,353,958	8,312,472
	<u>11,016,458</u>	<u>10,974,972</u>

RETAINED EARNINGS — Note 5

	<u>11,368,049</u>	<u>9,916,576</u>
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	<u>22,384,507</u>	<u>20,891,548</u>
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	<u>\$37,117,585</u>	<u>\$36,449,078</u>
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Approved on behalf of the Board:

F. E. SHAW, *Director*

J. N. TURVEY, *Director*

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Year Ended August 31, 1967

	1967	1966
SALES	\$14,657,504	\$17,329,363
EARNINGS BEFORE PROVIDING FOR THE UNDERNOTED EXPENDITURES	3,203,380	4,977,172
Interest on long-term debt	630,393	673,359
Other interest	152,706	89,556
Legal expenses	31,318	25,432
Directors' fees	17,275	9,675
Depreciation	770,215	753,180
	<u>1,601,907</u>	<u>1,551,202</u>
NET EARNINGS — Note 6	1,601,473	3,425,970
Retained earnings at beginning of year	9,916,576	7,044,891
Dividend on preference shares	(150,000)	(118,750)
Bond discount and other financing costs written off		(435,535)
RETAINED EARNINGS AT END OF YEAR	<u>\$11,368,049</u>	<u>\$ 9,916,576</u>

The accompanying notes are an integral part of this financial statement.

AUDITORS' REPORT TO THE SHAREHOLDERS

To The Shareholders

Interprovincial Steel and Pipe Corporation Ltd.

We have examined the accompanying financial statements of Interprovincial Steel and Pipe Corporation Ltd. for the year ended August 31, 1967 comprising the balance sheet as at that date and the statements of earnings and retained earnings and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, the aforementioned statements, together with the notes thereto, are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at August 31, 1967 and the results of its operations and the source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. All the transactions of the company that have come to our notice have been within the objects and powers of the company.

Regina, Saskatchewan,

November 2, 1967.

RIDDELL, STEAD, GRAHAM & HUTCHISON,

Chartered Accountants.

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended August 31, 1967

	1967	1966
SOURCE OF FUNDS		
From operations		
Net earnings	\$ 1,601,473	\$ 3,425,970
Non-cash charges		
Depreciation	770,215	753,180
	<u>2,371,688</u>	<u>4,179,150</u>
Proceeds from sale of		
Preference shares		2,662,500
Common shares	41,486	326,512
Long-term bank loan	174,000	
	<u>2,587,174</u>	<u>7,168,162</u>
APPLICATION OF FUNDS		
Expenditures for plant and equipment	607,263	663,445
Construction in progress	177,945	2,269,000
Reduction of long-term debt	752,300	1,535,500
Dividend on preference shares	150,000	118,750
Financing costs		188,006
Special refundable tax	63,265	49,497
	<u>1,750,773</u>	<u>4,824,198</u>
INCREASE IN WORKING CAPITAL	836,401	2,343,964
Working capital at beginning of year	7,236,269	4,892,305
WORKING CAPITAL AT END OF YEAR	<u>\$ 8,072,670</u>	<u>\$ 7,236,269</u>

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 1967

1. CONSTRUCTION IN PROGRESS

The company has undertaken a program for the construction of a spiral weld pipe mill capable of producing pipe in size ranging from 16 inches to 64 inches in diameter of a quality equal to the specifications of the American Petroleum Institute (API). The construction program is scheduled for completion in March of 1968 at a total estimated cost of \$2,000,000.

2. BANK INDEBTEDNESS

The bank loans are secured by a general assignment of book debts and under Section 88 of the Bank Act. In addition, the bank holds a floating charge on the assets of the company.

3. LONG-TERM DEBT

	Outstanding Aug. 31/67
5½% First mortgage sinking fund bonds maturing December 1, 1973 (sinking fund \$625,000 per annum 1967-1972)	\$ 5,000,000
6½% First mortgage sinking fund bonds Series B due August 15, 1985	2,675,000
6½% First mortgage sinking fund bonds Series C due August 15, 1985 (U.S. \$1,450,000)	1,560,562
6% Convertible sinking fund debentures maturing December 1, 1974	1,259,500
Bank loan	174,000
	<u>10,669,062</u>
Current maturities	752,300
	<u>\$ 9,916,762</u>

The sinking fund payments for the Series B and Series C bonds commence August 15, 1968 at \$80,000 and U.S. \$44,000 respectively and thereafter gradually increase to \$241,000 and U.S. \$130,000 respectively at maturity.

Sinking fund payments for the 6% convertible debentures are \$150,000 per annum December 1, 1967 to 1973. Of the \$1,500,000 debentures originally issued, \$240,500 have been converted to common shares. In accordance with the trust deeds, it is the company's intention to apply a portion of the credit established through this conversion to satisfy the sinking fund payment due December 1, 1967.

During the year the company negotiated a two-year \$2,000,000 line of credit with the company's bankers to finance the cost of construction of the spiral weld pipe mill referred to in Note 1. At August 31, 1967, \$174,000 has been drawn against this loan.

4. CAPITAL STOCK

During the year, 13,920 common shares were issued under the employees' share option plan as follows:

3,920 shares at \$2.93 per share

10,000 shares at \$3.00 per share

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended August 31, 1967

The following unissued common shares are reserved at August 31, 1967:

(a) Employees' share options

	<u>Price</u>	<u>Expiry Date</u>	<u>Aug. 31/67</u>
Options outstanding	\$2.93	January 21, 1968	2,400
(b) Shares for possible issuance upon conversion of the 6% convertible sinking fund debentures at the rate of \$5.66 to December 1, 1967 and \$6.30 to November 30, 1974			222,526
(c) Shares for possible issuance upon conversion of the \$1.20 cumulative redeemable convertible preference shares at the rate of three (3) common shares for one (1) preference share convertible at any time up to, but not after, October 1, 1972. These shares are redeemable at the option of the company at \$22.55 per share after October 1, 1968			375,000
(d) Options granted to the Province of Saskatchewan at \$5.00 per share exercisable up to December 1, 1973			60,000
Total number of shares reserved			<u>659,926</u>

5. DIVIDEND RESTRICTIONS

- (a) The deed of trust and mortgage securing the first mortgage bonds restricts the payment of dividends on any class of the company's capital stock if the net working capital of the company is, or by reason of the payment of such dividend would be reduced to, less than \$4,000,000 or the shareholders' equity reduced to less than \$12,000,000.
- (b) The provisions attached to the preference shares restrict the payment of dividends on the common shares:
 - (i) if the preference dividends are in arrears
 - (ii) if the payment of such common share dividends would reduce the retained earnings below the amount of \$7,044,891 plus the lesser of (1) one-half the earnings since August 31, 1965, or (2) the amount required to redeem the preference shares.

6. DEPRECIATION AND INCOME TAXES

As a result of the company's policy of claiming for tax purposes capital cost allowances in excess of the depreciation recorded in the accounts, no provision for income taxes has been charged against income. The income taxes otherwise chargeable against income would be approximately \$810,000. This difference may be applicable to future periods in the event amounts that can be claimed for tax purposes are less than the depreciation recorded in the accounts. The accumulated amount by which income taxes have been reduced by claiming excess capital cost allowance in this and prior years is approximately \$6,150,000.

7. LITIGATION

Litigation is pending wherein the company is being sued in the amount of \$804,000 under a contract for the supply of pipe. The company is insured to limits in excess of the amount claimed and, should the litigation succeed, it is the opinion of the counsel for the company that the company is fully protected by such insurance. The customer has refused payment for a portion of the contract in the amount of \$515,000 and the company is counter-claiming for this amount.



